

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER ) CASE NO.  
COMPANY FOR AN ADJUSTMENT OF RATES ) 92-452

O R D E R

IT IS ORDERED that Kentucky-American Water Company shall file the original and 20 copies of the following information with the Commission no later than April 22, 1993, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. If the information cannot be provided by the stated date, you should submit a motion for an extension of time stating the reason a delay is necessary and a date by which the information will be furnished. Such a motion will be considered by the Commission.

1. How have the strategic planning processes at Kentucky-American, the Southern Region and American Waterworks been modified to reflect the use of a future test year for rate-making purposes?

2. How have the June 1991 Schumaker & Company management audit recommendations, especially those involving cost savings, been reflected in the future test year forecasts? Discuss and detail the dollar amounts in question.

3. Describe Kentucky-American's assessment of the levels of risk it deems acceptable in its operations as well as the management of those risks.

4. Describe and detail the contingency planning process at Kentucky-American.

5. Provide terms and conditions of the availability and cost of short-term debt for the period April 1, 1993 through March 31, 1994 (similar to information provided in response number 36 to the Commission's data request number 2).

6. Have the 8-1/2% series mortgage bonds mentioned in Cecil Sasher's, Vice President and Treasurer of Kentucky-American, testimony been recalled as planned on March 1, 1993?

7. When was Thomas Zepp's, Vice President of Utility Resources, Inc., testimony prepared?

8. Why are pages 10 and 11 of Mr. Zepp's exhibit based on information available as of October 1991? Explain, in detail, why this is the most recent information available.

9. For each figure given on pages 10 and 11 of the exhibit to Mr. Zepp's testimony, state the period of time which the figure represents.

10. Are any of the 11 water utilities used in Mr. Zepp's sample wholly-owned subsidiaries of another company?

11. How many of the 11 water utilities used in Mr. Zepp's sample are regulated in jurisdictions with future or forward-looking test periods? Indicate which utilities are so situated and how comparable the methodologies are to Kentucky's.

12. Does the high amount of debt leveraging relative to other utilities used in Mr. Zepp's sample tend to decrease Kentucky-American's overall cost of capital? Would this tend to be attractive or unattractive to investors?

13. Provide the years that returns on equity were awarded to each utility on page 14 of the exhibit to Mr. Zepp's testimony.

14. Is the risk caused by the loss of sales due to conservation mitigated by the trend of customer and sales growth in the case of Kentucky-American?

15. Why doesn't Kentucky-American's five-year plan project the need for short-term financing as proposed in Kentucky-American's capital structure in Schedule J-1, page 1 of 2 of Exhibit 38 of the Accounting Schedules?

16. In response to Item 72(b) of the Commission's March 4, 1993 Order, Mr. Oxley stated that billed customer charge and metered water usage data for the twelve month period ended May 31, 1992 was used to forecast revenues for the twelve month period

ended August 31, 1994. In response to Item 72(c), he stated that the base period revenues includes actual revenue amounts for the six months ended October 1992. Explain why actual revenue amounts for the months of June 1992 to October 1992, with corresponding actual billed customer charges and metered water usage amounts, were not used in forecasting revenues for the twelve month period ended August 31, 1994.

17. In the response to Item 72(c) of the Commission's March 4, 1993 Order, reference is made to April 1992. Should this actually be April 1993?

18. In response to Item 77 of the Commission's March 4, 1993 Order, Mr. Oxley stated that Kentucky-American is unaware of any conditions in 1994 which would result in changes in expected customer growth from the forecasted 1993 growth rates. Explain why customer growth rates in 1994 would not be expected to be different from those in 1992 or 1993 given the large year-to-year variations in new customer additions as shown on Workpaper 2-3.

19. Provide a reference in this rate case filing for the "monthly budgeted change in customers" as discussed in response to Item 95.

20. Explain how the meter billings shown in column B of Workpapers 2-1.1 through 2-1.5 differ from customer bills shown in column C of Exhibit 38, Schedule M-3.1, pages 1 through 5.

21. Referring to the response to Item 93 of the Commission's March 4, 1993 Order, explain why a cost-of-service study was not filed in this case.

22. Provide a complete and detailed description of the weather normalization regression model discussed in response to Item 66 of the Commission's March 4, 1993 Order. In the description, provide, among other things, the following information:

a. How the data provided in response to Item 66 was used in the model.

b. How the quarterly residential customer, sales, actual cooling degree days and rainfall, and normal cooling degree days and rainfall data were determined.

c. The identity of the dependent and independent variables.

d. The methodology used to estimate the model coefficients.

e. How the model estimation results were used to determine the per customer weather adjustment.

f. How the weather normalized sales were used in projecting sales for the forecasted test period.

23. Referring to the response to Item 81 of the Commission's March 4, 1993 Order:

a. Explain why the percentage difference between budgeted sales and actual sales for residential customers in 1992 (6.2 percent) was nearly three times that for total customers (2.4 percent).

b. Explain what happened in 1989 to make the percentage difference between budgeted sales and actual sales for residential

and industrial customers to be over 16 percent and that for total customers to be over 12 percent.

24. Explain why Kentucky-American uses an engineering model to predict future sales for plant construction purposes, but then uses a different methodology to predict future sales for setting rates, as described in response to Item 85(a) of the Commission's March 4, 1993 Order. Wouldn't this result in inconsistent forecasts?

25. The response to Item 85(a) of the Commission's March 4, 1993 Order explains that an econometric model is not used by Kentucky-American to forecast sales because of the chance that the forecast could be off by as much as 5 percent. The response to Item 81 shows that for the past five years forecasts for usage per residential customer have been off on average by more than five percent and that forecasts for usage per industrial customer have been off on average by more than eleven percent. Explain whether econometric models could improve the forecasts for those customer classes.

26. Is Kentucky-American aware of any water company other than Tennessee-American Water Company that is using econometric models to forecast water sales? Explain.

27. In response to Item 85(d) of the Commission's March 4, 1993 Order, Kentucky-American listed eight factors that could affect water sales and customer levels. Explain why Kentucky-American has not developed an econometric model that would use these or other factors in forecasting water sales.

28. Explain why Kentucky-American has not conducted sensitivity analyses as part of its sales and customer forecasts in this case.

29. The response to Item 87 of the Commission's March 4, 1993 Order explains that the extent to which the impact of new and existing conservation programs are being accounted for in sales forecasts is the amount of water savings embedded in a billing analysis in 1992.

a. Is Kentucky-American able to predict the impact of conservation programs on future water sales? Explain.

b. Are water savings resulting from conservation programs expected to continue at 1992 levels? Explain.

30. Provide an explanation for the response to Item 88(a) of the Commission's March 4, 1993 Order.

31. Provide a copy of the cost study referred to in the response to Item 88(c) of the Commission's March 4, 1993 Order.

32. Provide a copy of the latest edition of American Water Works Association's Manual M1 as referenced in the report provided in response to Item 89 of the Commission's March 4, 1993 Order.

33. Has Kentucky-American conducted an analysis of the effect on its sales and revenue resulting from the implementation of single-block or inverted-block rates, similar to the analysis shown in the report provided in response to Item 89 of the Commission's March 4, 1993 Order? If so, provide a copy of this analysis.

34. Referring to the response to Item 92 of the Commission's March 4, 1993 Order, does the sales forecast presented in this case

reflect or contain any adjustments for abnormal weather conditions? Explain.

35. Referring to the response to Item 97, a review of Section 3 of Kentucky-American's 1992 Least Cost-Comprehensive Planning Study does not reveal that the construction of two new dams on the Kentucky River is Kentucky-American's least costly option for meeting its future supply needs, as discussed in Mr. Edens testimony. Please provide additional information which would clarify this matter.

36. In response to Item 24 of the Commission's March 4, 1993, Order, the decrease in Account 903.51 Billing and Accounting Computer the January through April 1993 accrual over the prior year is attributed to a change in assignment of Hershey data processing costs between the financial and customer accounting function. Provide a detailed explanation for the change in assignment of the Hershey data processing costs.

37. Refer to the response to Item 25 of the Commission's March 4, 1993 Order:

- a. Provide a definition of "retro-adjustment."
- b. The attachment lists Warren & Welsh as the source for the retro-adjustment. Identify Warren & Welsh and explain their relationship to Kentucky-American.

38. Refer to the response to Item 180 of the Attorney General/Lexington-Fayette's information request of March 4, 1993:

- a. Kentucky-American attributed the increase in 1992 over 1991 workers' compensation insurance to large retro-adjustment



credits received in 1991. Why did Kentucky-American receive large retro adjustments in 1991?

b. Provide the amounts of retro-adjustments made to workers' compensation insurance for 1987 through 1992.

c. Does Kentucky-American's forecasted workers' compensation insurance reflect anticipated retro-adjustments? If yes, identify the amount and explain how it was calculated. If no, explain why Kentucky-American did not propose a retro-adjustment.

39. Refer to the response to Item 27 of the Commission's March 4, 1993 Order:

a. Provide a detailed analysis identifying the separate components of the prior period and base period retro-adjustments of \$177,914 and \$100,933, respectively.

b. Does Kentucky-American's forecasted general liability insurance reflect anticipated retro-adjustments? If yes, identify the amount and explain how it was calculated. If no, explain why Kentucky-American did not propose a retro-adjustment.

40. Refer to the response to Item 31 of the Commission's March 4, 1993 Order:

a. Based on the 1993 and 1994 Allowance for Funds Used During Construction ("AFUDC") budgets it appears that the forecasted AFUDC is \$321,673.<sup>1</sup> Is this the correct amount of AFUDC

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<sup>1</sup> 9/93 through 12/93  
1/94 through 8/94  
Forecasted AFUDC

\$ 119,017  
+ 202,656  
\$ 321,673

for the forecasted period? If no, provide the corrected amount with an analysis showing how it was calculated.

b. What affect does the corrected AFUDC have on Kentucky-American's requested revenue increase? Provide detailed workpapers and calculations to support the AFUDC affect on the requested revenue increase.

c. Kentucky-American provided a programmed maintenance material budget for 1993. If available, provide the 1994 programmed maintenance material budget.

d. For each line item listed in the 1993 and 1994 programmed maintenance material budget classify it as recurring or nonrecurring. For those items that are nonrecurring, provide the date the item was last purchased or the service performed.

41. Refer to the response to Item 33 of the Commission's March 4, 1993 Order:

a. "The legal services to be performed in the forecasted period will be general in nature and will include work in such areas as employee relations, taxes, bankruptcy matters, etc." Provide a detailed breakdown of forecasted legal fees into the separate categories that were partially listed above.

b. Are forecasted legal fees based on projections, historical trends, or some combination of both?

c. The forecasted period includes temporary service fees of \$7,920. Provide a detailed explanation of the temporary services that Kentucky-American predicts that it will require in the forecasted period.

d. The forecasted period includes contract services for Optical Disk Imaging and microfilming of Kentucky-American records. Provide copies of the referenced contracts.

e. Are these services performed on an annual basis?

f. Provide the dollar amount included for these contract services in the forecasted period.

42. Are all of the expenses referenced in the response to Item 34 of the Commission's March 4, 1993 Order excluded from operating expenses? If not, list the expense, where it is reported, and the amount.

43. Refer to the response to Item 36 of the Commission's March 4, 1993 Order. Provide the short-term debt credit line facilities for April 1, 1993 through March 31, 1994 when available.

44. Refer to the response to Item 37 of the Commission's March 4, 1993 Order:

a. Provide the number of employees that are enrolled in Plan I Medical Option and Plan 2 Medical Option for the base period and forecasted period.

b. Provide the number of employees with dependent coverage in Plan I Medical Option and Plan 2 Medical Option for the base period and forecasted period.

c. Both medical plans have employee contribution requirements. Provide detailed explanations describing how the contribution requirements were developed for each medical plan.

d. Explain why Kentucky-American does not require its employees to contribute the difference between single and family coverage.

e. In the recent union contract negotiations, did Kentucky-American attempt to get its employees to contribute the difference between single and family health insurance coverage? Will Kentucky-American consider this option in its next union contract negotiations?

f. Did Kentucky-American factor into its forecasted employee health insurance expense, the increased 1990 employee contributions?

45. In a previous rate case proceeding, Kentucky-American provided a copy of the Tennessee Public Service Commission's weather normalization model. The computer disk provided in that proceeding is inoperable. Provide a new copy of the weather normalization model and a copy of the operating directions.

46. Refer to the response to Item 226 of the Attorney General/Lexington-Fayette's March 4, 1993 Information Request:

a. The comparisons between actual vs. budgeted construction expenditures for 1990, 1991, and 1992 shows that only 6 budget projects<sup>2</sup> were completed on the scheduled date and that no project was completed ahead of schedule. The following is the

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<sup>2</sup>

90-02	KRS, Replace Installments
90-03	KRS, Replace (8) Valves
90-09	Replace Diesel "F", Res #4
90-11	Construct 12" RT 460
90-12	Construct 12" Hill Road
91-06	Purchase 6.5 Acres, KRS

response to Item 115 of the Commission's March 4, 1993 Order, "The Company has incorporated into its forecasted plant additions its very best estimate of both the cost and timing of plant additions. The Company has not factored any anticipated cost overruns, time delays or projects finishing ahead of time."

Given that only 6 of the projects in 1990, 1991, and 1992 were completed on schedule, explain why historical completion date trends should not be factored into the estimates.

b. For the period of 1986 through 1992, identify the construction projects completed ahead of schedule, on schedule, and behind schedule.

c. For the period of 1986 through 1992, provide the annual average number of days the construction projects were completed ahead of schedule and behind schedule. Provide all supporting calculations and workpapers.

d. Recalculate the base period and forecasted period Utility Plant In Service ("Utility Plant") factoring into the construction budget the 6 year historical average of cost overruns, cost underruns, time delays, and projects finishing ahead of time. Include the affect the recalculated Utility Plant would have on the rest of Kentucky-American's base period and forecasted financial statements. Provide all workpapers, assumptions, and calculations.

47. Kentucky-American stated in its response to Item 116(a) of the Commission's March 4, 1993 Order that a comparison was made between leasing rather than purchasing a new System 36 Computer. Provide the details of this comparison.

48. In response to Item 116(b) of the Commission's March 4, 1993 Order, Kentucky-American stated that bids will be requested and its existing System 36 Computer will be sold to the highest bidder. Has the sale of the existing computer system been included in Kentucky-American's forecasted operations? If yes, identify where the sale of the computer is included and the amount. If no, explain why the purchase of the System 36 is included but the sale of the old system was not.

49. Refer to the response to Item 117 of the Commission's March 4, 1993 Order:

a. Kentucky-American stated that the costs it included in Construction Work In Progress ("CWIP") to develop an additional source of supply is for "design and easements." Which of the source of supply options are the "design and easements" for?

b. Why should preliminary design costs for the source of supply projects be included in CWIP?

c. How will Kentucky-American recover its preliminary cost for the source of supply options that are rejected?

d. Which of the source of supply options under consideration does Kentucky-American prefer? Include a detailed discussion of why Kentucky-American prefers it over the other options.

e. Based on its time schedule, when will Kentucky-American know for certain which source of supply option it will choose?

f. When does Kentucky-American project that it will seek a Certificate of Public Convenience and Necessity for the source of supply option?

g. What current benefit do the ratepayers receive from the design and or investigation of the source of supply options?

h. When will the source of supply evaluation be completed?

50. Are paid holidays included in the calculation of regular pay?

51. a. Did any of Kentucky-American's employees take time off without pay in 1990, 1991, or 1992? If yes, provide the number of employees per year that took time off without pay and the amount of time that was taken off without pay.

b. Has Kentucky-American factored into its forecasted salaries and wages the historical level of employees that have taken off with out pay? If no, provide an explanation.

52. Refer to the response to Item 120 of the Commission's March 4, 1993 Order:

a. For those employees that worked on a holiday and were paid scheduled overtime, did Kentucky-American include the full 2,088 hours in calculating that employee's regular salary? If yes, explain why the employee would be paid for overtime and regular pay for the same day.

b. What considerations did Kentucky-American include in its calculation of anticipated overtime?

c. Provide an analysis of scheduled and nonscheduled overtime in the same form as Schedule G-2 of Exhibit 38.

53. Refer to the response to Item 121 of the Commission's March 4, 1993 Order:

a. What was the criteria used in selecting the utilities in Kentucky-American's wage comparison?

b. Given the differences in positions and training, how accurate is the comparison of gas, electric, and telephone, wages to those of a water utility?

54. Since Kentucky-American's non-union employee's pay raises are based on merit and performance appraisals, explain how all of Kentucky-American's non-union employees received the same percentage pay increases?

55. a. The comparison of the annual budgeted amounts and actual results for fuel and power provided in response to Item 124(c) of the Commission's March 4, 1993 Order shows that for the period of 1987 through 1992 the budgeted amount exceeded the actual results. Explain why this should not be factored into the forecasted projection of the fuel and power expense.

b. Do the comparisons reveal that there may be a flaw with the way Kentucky-American budgets for its fuel and power expense?

c. What effect did the drought of 1988 have on the forecasted fuel and power expense? Provide a detailed explanation and the dollar amount of the affect.



56. Are the pump replacements that occurred in 1992 at the Kentucky River Station, the only construction project that will have an effect on Kentucky-American's forecasted fuel and power expense?

57. Refer to the response to Item 129 of the Commission's March 4, 1993 Order:

a. Kentucky-American provided a schedule showing that the average increase in chemical cost for the 11 year period from 1981 through 1992 was 2.88 percent. Explain why the anticipated inflation rate of 3.5 percent would be more accurate than the 11 year historical average.

b. Recalculate Kentucky-American's forecasted chemical expense using the 11 year historical average increase of 2.88 percent. Provide all workpapers, assumptions, and calculations.

c. In calculating its chemical expense budget does Kentucky-American normally use a projected inflation rate?

58. Given the current government regulations for sludge removal and disposal, is the use of historical costs an accurate prediction of the future costs of sludge removal?

59. Upon review of the contracts provided in response to Item 133 of the Commission's March 4, 1993 Order, the contract prices did not match the amounts on workpaper W/P-3-10.1. For example, the workpaper shows that the second floor copier cost \$726 per month, but the Xerox contract for the same copier lists a minimum monthly lease payment of \$883.87 plus copies. Provide an explanation of why the contracts differ from the workpaper.

60. Item 105 of the Commission's March 4, 1993 Order requested Kentucky-American to provide a detailed listing of the services now offered by the American Waterworks Service Company ("Service Company") that were not described in the 1971 Service Company Agreement ("1971 Agreement") or that were grouped with other services, which Kentucky-American failed to do. Provide the detailed listing as previously requested.

61. Refer to Item 106 of the Commission's March 4, 1993 Order. Is data processing and customer billing the only category in which Kentucky-American received a benefit under the 1971 Agreement allocation method at the expense of the other operating subsidiaries? If yes, what caused the increase in the other expense categories when the 1989 Service Company Agreement ("1989 Agreement") was adopted? If no, provide the information requested in Item 106 for each category in which Kentucky-American received a benefit under the old agreement.

62. Refer to Item 107 of the Commission's March 4, 1993 Order:

a. What type of computer equipment and how many employees does the data processing department of the Service Company have?

b. Is printing and mailing the bills the only customer billing function performed by the Service Company for Kentucky-American? If no, list the other billing functions provided to Kentucky-American by the Service Company.

c. Given the varied data processing services provided by the Service Company that have no relation to Kentucky-American's customers, provide a detailed explanation as to why customers or bills is the appropriate allocation method for this service.

d. Is the utilization of the data processing service dependent upon or independent of the size of the operating subsidiaries? Include a detailed explanation.

e. Explain why the Service Company allocated data processing costs are not divided evenly between the operating subsidiaries.

63. In the response to Item 185 of the Attorney General/Lexington-Fayette's March 4, 1993 Information Request, Kentucky-American stated that its System 36 computer calculated each customer's bill and the information was transmitted to Hershey. At Hershey, the customer's bill is printed and mailed. Explain why Kentucky-American does not prepare and mail its own customer bills.

64. Item 108 of the Commission's March 4, 1993 Order asked Kentucky-American to describe what drives the investment and cost to operate the Service Company's data processing department. Kentucky-American stated that the number of bills has a minor affect on data processing and that the appropriate allocation for data processing costs is customers, which is not the information that was requested. Provide a direct response to Item 108 of the Commission's March 4, 1993 Order.

65. Refer to the response to Item 109 of the Commission's March 4, 1993 Order:

a. In its response Kentucky-American made the following statement, "It does not imply that there is a direct relationship between every service provided by the Service Company and Kentucky-American's customers." Identify and describe the services provided by the Service Company where this relationship does not exist.

b. Kentucky-American also stated that, "The Company also feels that there is not a direct relationship between every service provided by the Service Company and all of the former allocations used under the 1971 Agreement." Identify and describe the services provided by the Service Company where this relationship does not exist.

c. Why is the customer based allocation an appropriate way to allocate costs?

d. Kentucky-American failed to respond to Item 109(b). Provide a detailed response to that question.

66. In its response to Item 110 of the Commission's March 4, 1993 Order, Kentucky-American stated that the spurious accuracy of the 1971 Agreement allocators came from, "the physical requirement associated with individuals in 20+ companies being required to count such elements as invoices, KWHs, number of meetings, bills, both machine and hand prepared."

a. Is the "spurious accuracy" a result of the physical calculation and not the allocation methodologies used in the 1971 Agreement?

b. Identify the calculations that were performed by hand and those performed by machine.

c. Provide a detailed explanation as to why all of the allocations could not be performed by computer.

67. Refer to the response to Item 111 of the Commission's March 4, 1993 Order. Is there any evidence or studies performed to support the statement that the customers are the cost causers? If yes, provide copies of any evidence or studies that support the above statement.

68. Provide an explanation as to why the Service Company failed to perform a study of its allocation methodology when the 1989 Agreement was developed.

69. What is a "remote terminal control unit?"

70. Refer to Kentucky-American's response to Item 144 of the Commission's March 4, 1993 Order. Specifically, identify what has changed since Case No. 90-321 that would cause the Commission to reconsider its position on the 1989 Agreement's customer allocation methodology.

71. Assuming the Commission denies Kentucky-American's request for deferral of pension expenses as calculated under SFAS 87 and instead includes those expenses in the determination of revenue requirements in this case, would Kentucky-American then fund the pension costs as collected in rates or would it still only fund to the extent of tax deductibility? Provide a detailed explanation of your answer.

72. If Kentucky-American funded pension costs in an amount in excess of that allowed for tax purposes, would Kentucky-American be assessed an excise tax? If so, how much? Provide a detailed narrative explanation and all supporting workpapers and documentation for your response.

73. Why did Kentucky-American choose a three year amortization period for the stub portion? Would a 20-year amortization period, which coincides with the amortization of the transition obligation, be unreasonable? Explain.

74. Give a detailed explanation of why Kentucky-American could not absorb the entire \$3,806,408 transition obligation at the time SFAS 106 was implemented. What would be the income tax effects of this absorption? On net income? On revenue requirements?

75. To illustrate how sensitive the actuarial study is in relation to the medical trend factor, provide the information as requested in Item 56 of the Commission's March 4, 1993 Order which assumes a 1% reduction in the trend analysis for years 1-12. Show Kentucky-American's allocated portion of SFAS 106 costs in your response.

76. With reference to Item 57 of the Commission's March 4, 1993 Order, provide Kentucky-American's allocation of AWWA's total "post-retirement welfare plans" as calculated under the conservative, mainstream and optimistic medical inflation trend options. Use the same format as used in Item 57.

77. Describe in detail the method used by Towers, Perrin, Foster, and Crosby ("Towers Perrin") in determining the medical inflation trend rates that were applied in the actuarial study related to SFAS 106. Provide any support or other justification for the use of these trend rates.

78. In the calculation of the SFAS 106 interest cost component Kentucky-American has included an interest calculation on the current period service cost. Explain why Kentucky-American deems it appropriate to calculate interest on the current year service cost.

79. Provide the SFAS 106 interest cost calculations for the years 1993 and 1994. For each year show the calculations including and excluding interest computed on current year service costs.

80. Refer to workpaper 3-6.2 and explain which of the premiums included in the calculation of the total premium of \$1,052,911 are included in the pay as you go costs of \$103,402 as shown on Exhibit RLF-C page 2 of 2. Reconcile these two amounts.

81. Provide a table comparing the premiums as shown on workpaper 3-6.2 which total \$1,052,911 to the premiums paid in 1992 for the same coverages. Use the same format as used on workpaper 3-6.2. Give explanations for any increases or decreases in premium amounts.

82. Give a description of the adjustments made to the grand total premium on workpaper 3-6.2 in the amounts of \$34,176, \$236,062, \$592, \$10,273, \$6,298 and \$287,401.

83. In reference to the response to Item 147e of the Commission's March 4, 1993 Order, provide and discuss in detail the "careful" medical inflation trends analyses that were performed by Towers Perrin prior to the recommendation of the trend options. In your discussion explain how the company's previous experience was utilized in the calculations of the medical cost trends and what cost-saving factors were reflected in the starting data. What were Towers Perrin other medical trend options? Provide a detailed narrative explanation as to why Towers Perrin made the recommendation of using the medical trend of 19%-6% as opposed to their other alternatives? Provide all workpapers, assumptions and other documentation to support the proposed medical cost trend.

84. What are the expected accrued pension costs as calculated under SFAS 87 for the test period and 1994? Show detailed calculations for AWWA and allocations to Kentucky-American.

85. Is Kentucky-American planning to include in rate base the regulatory assets which result from deferring SFAS 87 costs and the unamortized stub portion of SFAS 106? Explain.

86. In reference to Item 145(a) of the Commission's March 4, 1993 Order, provide a summary of findings of the 1990 employee benefits study. What actions were taken by Kentucky-American as a result of those findings?

87. In reference to Item 217 of the AG's data request number 1, explain how the allocations of pension costs are calculated and provide detailed explanations. Why is Kentucky-American asking to accrue its portion of the estimated 1992 pension cost in the amount



of \$6,900,000 while the actuarial study indicates the actual cost was \$6,026,065?

88. Why is the 1993 medical cost trend 15% on Schedule 1 of Exhibit RLF-D while the heading of Exhibit RLF-A indicates a 16% rate was used?

89. Explain why the medical cost trend used by AWWA begins with a rate of 19% during 1991 while Mr. Ferrell states in his testimony that the average annual increase in medical costs for the past five years was around 15%.

90. In reference to Item 42 of the Commission's March 4, 1993 Order, how does offering two health benefit plans to employees help reduce or control post-retirement benefit costs? Are there any other plans currently being considered at this time to help control related costs?

91. Provide a copy of the most current certified actuarial report regarding SFAS 106. If there has not been a report issued at this time, what is the anticipated date of the initial report?

92. Explain in detail why an 8.75% fund earnings rate was used in the calculation of SFAS 106 costs. Provide all workpapers, assumptions and other documentation to support this rate.

93. Provide detailed comparisons, using the 1971 and 1989 contracts, of the Service Company SFAS 106 costs allocated to Kentucky-American in the base period and forecasted period. The comparisons should be in the same format as Kentucky-American's response to Item 1 of the Commission's December 8, 1992 Order.

94. Provide detailed comparisons, using the 1971 and 1989 contracts, of the Service Company SFAS 106 costs directly billed to Kentucky-American in the base period and forecasted period. The comparisons should be in the same format as Kentucky-American's response to Item 1 of the Commission's December 8, 1992 Order.

95. Provide supporting calculations for 1993 and 1994 service costs, interest costs, amortization of transition obligations and returns on plan assets for the Regional Office, Belleville Laboratory and the General Office as shown on Exhibit RLF-C page 1 of 2. Provide explanations and calculations of the allocation factors used on that Exhibit to allocate those cost components to Kentucky-American.

96. In response to Item 87 of the AG's data request, the company stated that it does not currently expense all Pay-as-you-go cost. Provide an explanation for the treatment that is used.

97. In question 106 of the AG's data request, the reply for part A was age 62 for the full eligibility date for employees to receive non-pension post retirement benefits. In part D the answer was 55 with 15 years of service for employees to retire with full pension and non-pension post retirement benefits from the company. Explain.

98. If Kentucky-American's revenue requirements are determined by utilizing the ERISA plan for accruing pension benefits, will this result in current rates recovering current cost of service? Explain.

99. Explain and quantify all effects of the company's proposal to include in revenue requirements pension expenses based on ERISA rather than FASB 87. Provide a schedule showing service costs, interest costs, plan assets, return on plan assets, amount to be funded, and net pension expense for each method of valuation for the test year and the years 1992-2002.

100. a. Has Kentucky-American deferred any savings associated with the adoption of SFAS 87 for future return to ratepayers? Provide a detailed narrative explanation for your answer.

b. Has Kentucky-American requested Commission approval to defer any savings that resulted from the adoption of SFAS 87?

101. In response to Item 472 of the Attorney General/Lexington-Fayette's March 4, 1993 Information Request, Kentucky-American stated that it is aware of state Public Service Commissions that recognize depreciation as a component of the Lead/Lag Study. Provide a list of those commissions and any other pertinent information.

102. Provide a detailed monthly revenue analysis, preferably in spreadsheet format (billing determinants, rates and revenues) for the period January 1991 through August 1994 which supports historic and projected revenues by class and for each category of operating revenue. This analysis must contain information that permits recalculation of projected revenues given the billing determinants, revenue forecast assumptions and applicable rates for each revenue class.

103. Provide workpapers supporting the monthly accruals for Account 420, AFUDC for 11/92 through 4/93.

104. Describe how the post-retirement healthcare benefits differ from the benefits provided to active employees. Describe any changes to the retiree plan since January 1, 1990.

105. Provide any surveys performed by American Water Works or Kentucky-American which compare their level of post-retirement benefits with those of non-regulated industries. In light of the vast majority of companies changing their post-retirement benefits prior to the adoption of FAS 106, explain why Kentucky-American has apparently rejected any changes to its plan which would reduce the ratepayer's cost of providing retiree health care benefits.

106. Referring to Item 62 of the Commission's March 4, 1993 Order, are health care benefits the only benefits provided by Kentucky-American? If not, describe all other benefits and explain any changes that have occurred since January 1, 1991. Provide a copy of any brochures, policies, or benefits summaries (such as information that may be provided to new or prospective employees).

107. Identify all changes to Kentucky-American's employee medical plan from January 1, 1992 to the present. Identify the date of the change and the anticipated cost increases or decreases associated with the change. Describe how these plan changes were incorporated in employee medical expense projections.

108. Refer to the response to Item 102 of the Commission's March 4, 1993 Order. Does Kentucky-American consider the construction delays encountered unique to 1992 or have these delays

been incorporated into future capital budgets? Describe each delay individually and elaborate on Kentucky-American's view of the specific delay.

109. When will American Waterworks adopt FAS 106 for financial reporting purposes? Provide the actuarial studies supporting both the FAS 87 and FAS 106 expenses for the year ended 12/92.

110. Rate Filing Exhibit 10 contains a highly summarized version of forecast capital expenditures for 1993 forward. In addition, provide:

a. Complete construction budget documents and related support for the period 1989 through present. This should include, whether or not part of the budget document, per se: project justifications, authorizations and descriptions (including estimated completion dates) for all budget items required under Kentucky-American policies.

b. For the period 1991 through present, provide any workpapers or other documentation required to calculate the expenditure forecasts in the construction budget.

111. Provide plant accounting policies and procedures, including:

a. Procedures for classifying expenditures by plant category and budget item.

b. Procedures relating to work order/job order approvals, accounting and completion.

c. Procedures relating to transfers from CWIP to completed construction, from completed construction to plant accounts, and for retirement.

d. Procedures for loading (capitalizing) construction-related materials and supplies, vehicle usage, labor and general and administrative overheads.

112. Provide actual capital expenditures, retirements, and accounting transfers of CWIP to completed construction for months after 10-92 which have since become available.

113. Refer to the monthly financial data provided in Exhibit 38, Schedules C-2.2(a) and (b).

a. Confirm whether month headings for the "base" period amounts shown in schedule C-2.2(b) are correct or incorrect. If correct, explain why the months do not correspond with the base period calendar period indicated in the filing (i.e. May, 1992 through April, 1993).

b. Provide financial account data in the same account/subaccount format for the months May through August 1993.

114. Provide historical O&M expenses for the ten years ending 1992 desegregated according to major general ledger (source of supply, pumping, treatment, transmission and distribution, etc.) and budget (labor, fuel/power, chemicals, waste disposal, etc) categories. (Note: The 10 year historical data in the rate filing is not desegregated below the level of O&M.)

115. Has Kentucky-American conducted studies of compensation for management employees, similar to the one provided for hourly

employees in response to Item 121 of the Commission's March 4, 1993 Order. If so, provide copies.

116. Provide information to update the employee roster (WP 3-1.23) and the payroll forecast (WP 3-1.8) which has become available since 9-92 reflecting termination/retires, new hires, positions created and eliminated, etc.

117. Provide support for projected non-union hourly and salaried increases for 1994 (shown in WP 3-1.21 & 22).

118. Provide the most currently available authorized position listing.

119. The workpapers provided in support of fuel and power expense are insufficient to permit recalculation of the amount forecasted for the test period. Provide a complete set of workpapers which enables recalculation of the power cost amounts shown for each month of the forecast period from power prices and pumping. In the event that Kentucky-American believes the workpapers contain sufficient power price and quantity information to permit recalculation of the monthly amounts, provide a detailed example recalculating power expense for one of the forecast period months with specific references for each factor to the workpaper page from which the information was obtained.

120. Provide a workpaper which reflects and explains the derivation of forecast period pumpage used in the fuel/power expense calculation from forecast period sales. Include assumptions, explanations and amounts needed to reconcile sales and pumpage for unaccounted for water.

121. Provide a summary of the most recently available actual prices per unit paid by Kentucky-American for aluminum, chlorine, hydrated and pebble lime, polymers no. 1, ferric chloride, fluoride and caustic soda.

122. Explain how pumpage (for the purpose of determining chemical costs) was derived from sales. If the same pumpage statistics were used for chemicals and power expense, so indicate. If not, explain why they are different for its use.

123. Provide a detailed workpaper which supports the monthly charges to both accounts 643.3 and 643.31 (current and amortized expenses) in the forecast period. It is impossible to derive these amounts from the analysis on WP 3-4.1. The workpaper should permit recalculation of the monthly amounts posted to each of the two accounts in the forecast period.

124. Provide a detailed analysis sludge lagoon cleaning costs for the most recent historical cleaning, and for the forecast period cleaning estimated to be \$100,000.

125. Explain why sludge lagoon cleaning costs will not decrease if the lagoon is cleaned 4 times as often as it has been in the past.

126. Provide any environmental agency orders or company or other analysis which supports the decision to clean the sludge pond four times as often as in the past.

127. Refer to WP 3-7.1. For each deferral, indicate costs which have actually been incurred and those which were projected. For costs incurred, provide evidence (copies of invoices, etc) to



support the amounts claimed. Update any estimates for which costs have since been incurred. Provide documentation describing and supporting the calculations of any estimated future costs. In particular, provide the supporting calculation for the rate case amortization on Case No. 91-361 of \$84,433 on W/P 3-7.1. Explain why this amortization should not be \$68,932 ( $183,818 * 9/24$ ).

128. What is the nature of the \$90,000 in AWW cost associated with the current case. How much of this cost has been incurred to date? If this represents AWW employee salaries and similar costs, is this recorded as a direct assignment to KWA on AWW books? If not, how is it accounted for?

129. Provide invoice support for all workers' compensation and general liability insurance for the years, 1991, 1992 and 1993 to date.

130. Explain the meaning and the source of the workers' compensation rate and amounts associated with labor on workpaper WP 3-8.1. What relationship does the rate and the labor bear to the forecast premium? Provide the rates and amounts applicable to the most recent 12 months of historic data.

131. What factors caused workers' compensation insurance premiums to increase more than 150% percent between the period ending 4/92 and the forecast period (54,454 vs. 138,394)?

132. Explain the large deviation between actual and budgeted depreciation.

133. There are a number of reconciliation items shown on the Kentucky-American Federal Tax Return Statement 6 (Exhibit 31 (a),

Page 32 of 33) that do not appear in the Income Tax Calculation contained in the filing at Schedule E-1.3. These include Contributions & Advances, AFUDC over Interest Capitalized for Taxes, and Abandonment Losses. Identify all relevant items not included in Schedule E-1.3; why such items were not included in the tax computation, and amounts related to omitted items for the test period.

Done at Frankfort, Kentucky, this 8th day of April, 1993.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director